

The Commodities Feed: OPEC sees stronger oil demand in 2H21

Your daily roundup of commodity news and ING views



Energy

Crude oil prices traded firm yesterday on healthy gasoline demand in the US and an overall constructive report from OPEC. The group now expects global oil demand to increase by 5.89MMbbls/d YoY in 2021 as compared to its estimate last month of 5.79MMbbls/d. OPEC expects the demand recovery to be much stronger over the second half of 2021 as vaccines are now widely available and administered. The ongoing lockdown measures in Europe could continue to weigh on demand in the short term. The group also revised higher its demand estimates for 2020 and reported that demand may have fallen by 9.60MMbbls/d last year, as against its previous estimates of 9.72MMbbls/d

For the immediate term, OPEC has lowered its global demand estimates for 2Q21 by around 310Mbbbls/d whilst it increased supply estimates by non-OPEC members over the quarter by 370Mbbbls/d. As a result, the global requirement for OPEC crude has been revised down by 690Mbbbls/d to 27.4MMbbbls/d for the second quarter. Lower demand for OPEC crude may keep the group from easing output cuts further over the next few months at least. Earlier in the month, OPEC+ left output targets largely unchanged for April except for marginal increases for Russia and Kazakhstan.

Finally, US natural gas inventory withdrawals remained soft last week as temperatures rose in the Northeast, weighing on heating demand. The EIA reported a net withdrawal of 52bcf of natural gas last week compared to the 5-yr average of 89bcf for the same week and market expectations for 78bcf of withdrawal, according to a BBG survey. Natural gas inventory in the US now stands at 141bcf lower than the 5-yr average for this point in the season.

Metals

The metals markets were following the risk asset rally and appear to have had a double boost on the macro front. In the US, Biden will sign the US\$1.9 trillion Covid-19 stimulus package on Thursday, a day ahead as per the planned schedule, while the European Central Bank also pledged to step-up the pace of its stimulus.

In mine supply, Peru's copper output fell 7.6% YoY to 176.4kt in January after showing strong production numbers in the fourth quarter of last year. However, the nation expects a recovery in its copper production levels and total output to reach 2.5mt this year. Among other metals, zinc output declined by 3.5% YoY to 121.6kt, while lead production fell 13% YoY to 21kt last month. The overall decline for copper and zinc was primarily due to lower output levels at the Antamina mine.

Turning to China, the recent pollution crackdown continues to roil ferrous markets. Driven by stringent control and some production cuts by the mills, steel markets remained buoyant due to constrained supply. Steel demand is expected to grow in the next few months, in line with the seasonal pattern. Shanghai rebar prices jumped by over 2% during today's Asian sessions. Clearly, the recent move has been putting pressure on iron ore demand so as the market has been whipsawed by production's cuts from mills in Tangshan. Unlike the buoyant steel prices, Singapore iron ore futures prices slipped below US\$160/t in Asian sessions.

Agriculture

CBOT corn and soybean traded positive yesterday on healthy exports from the US and downside revision in supply from Argentina. The USDA reported that net sales of corn rose sharply to 683kt over the past week compared to market expectations of around 593kt, according to a Bloomberg survey and actual sales of 155kt a week earlier. The agency also reported soybean sales of 564kt over the past week, as against market expectations of 460kt and with China leading the purchases.

Meanwhile, Argentina's Buenos Aires Grain Exchange has pushed down its soybean supply estimates from 46mt to 44mt for 2020/21 due to hot and dry weather in the country; Argentina supplied 49mt of soybean in 2019/20. The exchange also revised down its corn production estimates to 45mt compared to estimates of 46mt made last week and 51.5mt of production last year.

On the other hand, Brazil's CONAB increased its corn production estimates from 105.5mt to 108.1mt for the marketing year 2020/21 mainly on bigger acreage. The Agency also revised higher its soybean production estimates from 133.8mt to 135.1mt (+8.2% YoY) on account of higher acreage (+4.1% YoY) and better yields (+4% YoY) compared to last year.

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